

**CITY OF MALVERN**  
**INDEPENDENT AUDITORS' REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2016**

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## City of Malvern

### Officials

#### (Before January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael K. Blackburn	Mayor	January 2016
Doug Shere	Council Member	January 2018
Bruce Breeding	Council Member	January 2016
Katelyn Phelps	Council Member	January 2018
Fred Moreau	Council Member	January 2018
Brian Jaschen	Council Member	Resigned July 2015
Kevin Willms	Council Member	January 2016
Shari Mueller	City Clerk	Indefinite
Kathy Anderson	Deputy Clerk	Indefinite
T.J. Patterman	Attorney	Indefinite

#### (After January 2016)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael K. Blackburn	Mayor	January 2018
Doug Shere	Council Member	January 2018
Bruce Breeding	Council Member	January 2020
Kate McGann	Council Member	January 2018
Fred Moreau	Council Member	January 2018
Roger Johnson	Council Member	January 2020
Mary Poort	City Clerk	Indefinite
Kathy Anderson	Deputy Clerk	Indefinite
T.J. Patterman	Attorney	Indefinite

**City of Malvern**





Diane McGrain, CPA  
Jim Menard, CPA  
Kelsey Peterson, CPA

October 27, 2016

### Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Malvern, Iowa, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Continued...

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Independent Auditor's Report  
City of Malvern

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Malvern as of June 30, 2016, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

*Supplementary and Other Information*

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 7 through 11, and 29 through 33 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 27, 2016 on our consideration of the City of Malvern's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Malvern's internal control over financial reporting and compliance.

*Schroeder + Associates, P.C.*

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Malvern provides this Management's Discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2016 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 14.6%, or approximately \$225,000, from fiscal 2015 to fiscal 2016. Capital grants decreased approximately \$197,000, and operating grants decreased approximately \$27,000.

Disbursements decreased 50.7%, or approximately \$1,120,000, in fiscal 2016 from fiscal 2015. Community and economic development disbursements decreased by approximately \$785,000, and capital projects disbursements decreased approximately \$325,000.

The City's total cash basis net position increased by 82.9%, or \$158,110, from June 30, 2015 to June 30, 2016. Of this amount, the assets of the governmental activities increased \$225,946, and business type activities decreased by \$67,836.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year, and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-Wide Financial Statement*

One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the water and sanitary sewer system. This activity is financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt-Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$120 thousand to \$346 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)			
	Year ended June 30,		
	2016	2015	
Receipts:			
Program receipts:			
Charges for service	\$ 123	\$ 107	
Operating grants, contributions and restricted interest	176	203	
Capital grants, contributions and restricted interest	469	666	
General receipts:			
Property tax	457	475	
Tax increment financing	-	7	
Local option sales tax	78	81	
Grants and contributions not restricted to specific purposes	1	-	
Commercial/industrial tax replacement	8	-	
Miscellaneous	4	2	
Total receipts	<u>1,316</u>	<u>1,541</u>	
Disbursements:			
Public safety	61	61	
Public works	244	234	
Culture and recreation	225	239	
Community and economic development	274	1,059	
General government	130	130	
Debt service	156	162	
Capital projects	-	325	
Total disbursements	<u>1,090</u>	<u>2,210</u>	
Change in cash basis net position	226	(669)	
Cash basis net position beginning of year	<u>120</u>	<u>789</u>	
Cash basis net position end of year	<u>\$ 346</u>	<u>\$ 120</u>	

The City's total receipts for governmental activities decreased by 14.6%, or \$225,000. The total cost of all programs and services decreased by approximately 50.7%, or \$1,120,000. The decrease in receipts was primarily due to capital grants.

The cost of all governmental activities this year was \$1,090 thousand compared to \$2,210 thousand last year. The City spent less monies on community and economic development and capital projects.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2016	2015
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 149	\$ 146
Sewer	114	110
General receipts:		
Miscellaneous	4	8
Unrestricted interest on investments	-	2
Total receipts	<u>267</u>	<u>266</u>
Disbursements:		
Water	207	169
Sewer	128	128
Total disbursements	<u>335</u>	<u>297</u>
Change in cash basis net position	(68)	(31)
Cash basis net position beginning of year	<u>71</u>	<u>102</u>
Cash basis net position end of year	<u>\$ 3</u>	<u>\$ 71</u>

Total business type activities receipts for the fiscal year were \$267 thousand compared to \$266 thousand last year. The cash balance decreased by \$68 thousand.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$345,795, an increase of \$225,946 from last year's total of \$119,849. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance decreased \$55,732 from the prior of \$131,900 to \$76,168 due to no interfund transfer of Local Option Sales Tax due to adherence to voter clause restriction and no additional street revenue as in the past year.
- ❖ The Road Use Tax Fund increased \$21,589 due to increases in state RUT refunds due to the state fuel tax increase.
- ❖ Local Option Sales Tax Fund increased \$72,288 due to no interfund transfer to the General Fund.
- ❖ The Debt Service Fund increased \$1,667.
- ❖ The Capital Projects Fund cash balance increased \$199,594 due to CDBG Housing and CDBG Downtown Revitalization revenues timing.

#### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Enterprise, Sewer Fund cash balance decreased by \$13,829 to (\$49,148) during the fiscal year. \$36,838 is restricted for the sewer sinking fund.
- ❖ The Enterprise, Water Fund cash balance decreased by \$54,007 to \$52,124 during the fiscal year due to the continued effects of low water rates, unable to realize next fiscal year's July 2016 increased water rates. As a result, the City continued to deficit spend in the water fund.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 23, 2016 and increased revenues \$376,980 to allow for grant receipts.

The budget amendment also increased disbursements by \$242,400 to allow for pool sandblasting and painting, library TA expenditure, timing of CDBG projects and depletion of bond issuance funds, tort liability premium increase, and emergency pump repairs.

## DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$839,000 in bonds and other long-term debt, compared to approximately \$1,018,000 last year as shown below:

	Outstanding Debt at Year End (Expressed in Thousands)	
	Year Ended June 30,	
	2016	2015
General obligation notes	\$ 473	\$ 612
Revenue notes	366	406
	<u>\$ 839</u>	<u>\$ 1,018</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt was approximately \$473,000 at fiscal year end, which is significantly below the City's constitutional debt limit of \$2.3 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Malvern's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees that will be charged for various City activities. As of August 9, 2016, the City's debt obligation has risen by \$215,185 due to general obligation bond closure, filed with Mills County in July 2016, which will affect 2017 taxes.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Mary Poort, City Clerk, 107 E. 4<sup>th</sup> Street, Malvern, Iowa.

## **Basic Financial Statements**



Exhibit A

City of Malvern  
Cash Basis Statement of Activities and Net Position  
As of and for the year ended June 30, 2016

		Program Receipts				Net (Disbursement) Receipts and Changes in Cash Basis Net Position			Component Units	
		Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Malvern Friends of the Library	Malvern Volunteer Fire Department
Functions/Programs:										
Governmental activities:										
Public safety	\$	61,468	830	-	-	(60,638)	-	(60,638)		
Public works		243,969	66,109	144,143	-	(33,717)	-	(33,717)		
Culture and recreation		224,612	51,867	22,307	-	(150,438)	-	(150,438)		
Community and economic development		273,516	-	-	-	(273,516)	-	(273,516)		
General government		130,370	3,941	3,695	-	(122,734)	-	(122,734)		
Debt service		156,646	-	6,000	-	(150,646)	-	(150,646)		
Capital projects		-	-	-	468,626	468,626	-	468,626		
Total governmental activities		1,090,581	122,747	176,145	468,626	(323,063)	-	(323,063)		
Business type activities:										
Water		206,992	149,076	-	-	-	(57,916)	(57,916)		
Sewer		127,963	113,772	-	-	-	(14,191)	(14,191)		
Total business type activities		334,955	262,848	-	-	-	(72,107)	(72,107)		
Total Primary Government	\$	1,425,536	385,595	176,145	468,626	(323,063)	(72,107)	(395,170)		
Component Units:										
Malvern Friends of the Library	\$	36,920	-	38,973	-				2,053	-
Malvern Volunteer Fire Department		34,803	-	48,138	-				-	13,335
Total Component Units	\$	71,723	-	87,111	-				2,053	13,335
General Receipts:										
Property tax levied for:										
General purposes						282,316	-	282,316	-	-
Employee benefits						24,905	-	24,905	-	-
Debt service						149,622	-	149,622	-	-
Local option sales tax						78,288	-	78,288	-	-
Grants and contributions not restricted to specific purposes						1,104	-	1,104	-	-
Unrestricted interest on investments						368	724	1,092	-	-
Commercial/Industrial tax replacement						8,165	-	8,165	-	-
Miscellaneous						4,241	3,547	7,788	-	-
Total general receipts						549,009	4,271	553,280	-	-
Change in cash basis net position						225,946	(67,836)	158,110	2,053	13,335
Cash basis net position beginning of year						119,849	70,812	190,661	49,507	72,053
Cash basis net position end of year						\$ 345,795	2,976	348,771	51,560	85,388
Cash Basis Net Position										
Restricted:										
Expendable:										
Streets	\$					145,756	-	145,756	-	-
Property tax relief						133,572	-	133,572	-	-
Debt service						17,772	-	17,772	-	-
Other purposes						24,199	-	24,199	-	-
Unrestricted						24,496	2,976	27,472	51,560	85,388
Total cash basis net position	\$					345,795	2,976	348,771	51,560	85,388

See notes to financial statements

City of Malvern  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and for the year ended June 30, 2016

	General	Special Revenue				Other Nonmajor Governmental Funds	Total
		Road Use Tax	Local Option Sales Tax	Debt Service	Capital Projects		
Receipts:							
Property tax	\$ 271,500	-	-	144,630	-	24,049	440,179
Other city tax	10,816	-	78,288	4,992	-	856	94,952
Licenses and permits	1,600	-	-	-	-	-	1,600
Use of money and property	8,658	-	-	-	-	-	8,658
Intergovernmental	15,125	141,128	6,000	8,691	468,626	447	640,017
Charges for service	121,147	-	-	-	-	-	121,147
Miscellaneous	7,936	-	-	-	-	2,038	9,974
Total receipts	436,782	141,128	84,288	158,313	468,626	27,390	1,316,527
Disbursements:							
Operating:							
Public safety	61,468	-	-	-	-	-	61,468
Public works	105,134	119,539	-	-	-	19,296	243,969
Culture and recreation	204,613	-	6,000	-	-	13,999	224,612
Community and economic development	4,484	-	-	-	269,032	-	273,516
General government	123,415	-	-	-	-	6,955	130,370
Debt service	-	-	-	156,646	-	-	156,646
Capital projects	-	-	-	-	-	-	-
Total disbursements	499,114	119,539	6,000	156,646	269,032	40,250	1,090,581
Excess (deficiency) of receipts over (under) disbursements	(62,332)	21,589	78,288	1,667	199,594	(12,860)	225,946
Other financing sources (uses):							
Transfers in	6,600	-	-	-	-	-	6,600
Transfers out	-	-	(6,000)	-	-	(600)	(6,600)
Total other financing sources (uses)	6,600	-	(6,000)	-	-	(600)	-
Change in cash balances	(55,732)	21,589	72,288	1,667	199,594	(13,460)	225,946
Cash balances beginning of year	131,900	124,167	61,284	16,105	(251,266)	37,659	119,849
Cash balances end of year	\$ 76,168	145,756	133,572	17,772	(51,672)	24,199	345,795
<b>Cash Basis Fund Balances</b>							
Restricted for:							
Streets	\$ -	145,756	-	-	-	-	145,756
Local option sales tax	-	-	133,572	-	-	-	133,572
Debt service	-	-	-	17,772	-	-	17,772
Other purposes	-	-	-	-	-	24,199	24,199
Unassigned	76,168	-	-	-	(51,672)	-	24,496
Total cash basis fund balances	\$ 76,168	145,756	133,572	17,772	(51,672)	24,199	345,795

See notes to financial statements

City of Malvern  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2016

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 149,076	113,772	262,848
Operating disbursements:			
Business type activities	<u>206,992</u>	<u>79,843</u>	<u>286,835</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	(57,916)	33,929	(23,987)
Non-operating receipts (disbursements):			
Interest on investments	362	362	724
Miscellaneous	3,547	-	3,547
Debt service	<u>-</u>	<u>(48,120)</u>	<u>(48,120)</u>
Total non-operating receipts (disbursements)	<u>3,909</u>	<u>(47,758)</u>	<u>(43,849)</u>
Change in cash balances	(54,007)	(13,829)	(67,836)
Cash balances beginning of year	<u>106,131</u>	<u>(35,319)</u>	<u>70,812</u>
Cash balances end of year	<u>\$ 52,124</u>	<u>(49,148)</u>	<u>2,976</u>
<b>Cash Basis Fund Balances</b>			
Unrestricted	<u>\$ 52,124</u>	<u>(49,148)</u>	<u>2,976</u>

See notes to financial statements

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (1) Summary of Significant Accounting Policies**

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Malvern has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Malvern (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

**Discretely Presented Component Unit**

Malvern Friends of the Library (Friends) has been incorporated under the provisions of the Iowa Nonprofit Corporation Act to operate exclusively for charitable purposes for the enhancement and improvement of the Malvern Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, Friends meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or held by Friends are substantially for the direct benefit of the City of Malvern Library.

The Malvern Volunteer Fire Department (Department) has been incorporated under the Iowa Nonprofit Corporation Act to protect human life and property through fighting fires and providing community education in fire prevention and first aid/safety practices. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Department meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received or help by the Department are substantially for the direct benefit of the City of Malvern.

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (1) Summary of Significant Accounting Policies - Continued**

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County E911 Board.

**B. Basis of Presentation**

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Expendable restricted net position* result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation - Continued**

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for receipts required from the tax authorized by referendum and used for property tax relief.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through proprietary funds.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

The City of Malvern maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (1) Summary of Significant Accounting Policies - Continued**

C. Measurement Focus and Basis of Accounting - Continued

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year disbursements exceeded the amount budgeted in the culture and recreation and business type activities functions.

F. Property Tax Calendar

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2014, to compute the amounts which became liens on property on July 1, 2015. These taxes were due and payable in two installments on September 30, 2015 and March 31, 2016, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$348,771.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) Statement No. 72.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

**NOTE (3) Notes Payable**

Annual debt service requirements to maturity of general obligation and revenue notes are as follows:

Year Ended June 30,	General		Revenue Note		Total	
	Obligation Notes					
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 81,195	12,270	41,000	6,405	122,195	18,675
2018	56,000	9,592	42,000	5,688	98,000	15,280
2019	57,000	8,167	44,000	4,953	101,000	13,120
2020	53,000	6,742	45,000	4,183	98,000	10,925
2021	54,000	5,381	46,000	3,395	100,000	8,776
2022-2024	171,314	7,859	148,000	5,231	319,314	13,090
	<u>\$ 472,509</u>	<u>50,011</u>	<u>366,000</u>	<u>29,855</u>	<u>838,509</u>	<u>79,866</u>

Interest costs paid during the year ended June 30, 2016 totaled \$24,121.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,300,000 which was not exceeded during the year ended June 30, 2016.



City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (3) Notes Payable - Continued**

Revenue Notes – The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$799,000 in sewer revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2024. The annual principal and interest payments on the notes were 139% of net receipts. The total principal and interest remaining to be paid is \$395,055. For the current year, principal and interest paid and total customer net receipts were \$47,105 and \$33,929, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has not complied with the provisions of the resolution. Net receipts were insufficient to cover debt service payments and operations resulting in a negative unrestricted fund balance.

**NOTE (4) Lease Agreement**

The City leases a copy machine under an operating lease agreement. Rent expense for the year ended June 30, 2016 was \$1,584. The future minimum required minimum lease payments are as follows:

Year ending June 30,	Amount
2017	\$ 1,656
2018	1,656
2019	1,656
2020	1,656
2021	552
	<u>\$ 7,176</u>

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (5) Pension Plan**

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (5) Pension Plan - Continued**

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2016 were \$16,190.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$142,340 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.002881%, which was an increase of 0.000109% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016 the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$12,004, \$27,367 and \$33,143 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (5) Pension Plan - Continued**

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	<u>1% Decrease (6.50%)</u>	<u>Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
City's proportionate share of the net pension liability	\$ 249,211	\$ 142,340	\$ 52,132

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (5) Pension Plan - Continued**

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

**NOTE (6) Compensated Absences**

City employees accumulate vacation days for subsequent use or for payment at the end of the anniversary year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. Employees are entitled to payment of accrued vacation upon termination, retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2016, primarily relating to the General Fund is \$2,159. This liability is computed on rates of pay effective as of June 30, 2016.

**NOTE (7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 6,000
	Library Trust Memorial	600
		<u>\$ 6,600</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

**NOTE (8) Commitments**

Law Enforcement Contract

The City has contracted with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa through June 30, 2017 for an annual amount of \$17,929.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$8,741, plus \$2.80 per account bill, with an annual adjustment equaling the change in Consumer Price Index for All Urban Consumers (CPI-U) plus one percent, effective through June 30, 2017.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (8) Commitments - Continued**

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,104 per month for these services.

Communication Services

The City has a 28E agreement with Mills County for the purpose of providing emergency communication services, effective through June 30, 2017. The City's share of the support is \$9,136 for the year ending June 30, 2017.

**NOTE (9) Construction Commitments**

At June 30, 2016, the City had the following construction commitments:

	Estimated Contract Amount	Paid to Date	Remaining Commitment	Retainage Payable
CDBG Downtown Revitalization	\$ 1,092,443	1,088,739	3,704	100
CDBG Housing Project	190,330	165,270	25,060	1,235
	<u>\$ 1,282,773</u>	<u>1,254,009</u>	<u>28,764</u>	<u>1,335</u>

**NOTE (10) Risk Management**

The City of Malvern is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE (11) Deficit Fund Balances**

At June 30, 2016, the City had the following deficit fund balances:

Capital Projects Fund	\$ 51,672
Enterprise, Sewer Fund	<u>49,148</u>
	<u>\$ 100,820</u>

The deficits will be eliminated with federal funds reimbursements, transfers and increases in rates when appropriate.

City of Malvern  
Notes to Financial Statements  
June 30, 2016

**NOTE (12) Subsequent Events**

The City issued General Obligation Bonds for \$200,000 on August 9, 2016 for the purchase of equipment and City infrastructure repairs.

**NOTE (13) New Accounting Pronouncement**

The City of Malvern adopted fair value guidance set forth in Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

## **Other Information**



City of Malvern  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds  
 Other Information  
 Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Budget to Net Variance
				Original	Final	
Receipts						
Property tax	\$ 440,179	-	440,179	444,338	444,338	(4,159)
Tax increment financing	-	-	-	8,058	8,058	(8,058)
Other city tax	94,952	-	94,952	101,614	101,614	(6,662)
Licenses and permits	1,600	-	1,600	2,425	2,425	(825)
Use of money and property	8,658	724	9,382	500	500	8,882
Intergovernmental	640,017	-	640,017	383,985	760,085	(120,068)
Charges for services	121,147	262,848	383,995	366,150	366,150	17,845
Miscellaneous	9,974	3,547	13,521	-	880	12,641
Total receipts	1,316,527	267,119	1,583,646	1,307,070	1,684,050	(100,404)
Disbursements						
Public safety	61,468	-	61,468	67,961	67,961	6,493
Public works	243,969	-	243,969	242,069	269,969	26,000
Culture and recreation	224,612	-	224,612	189,835	200,635	(23,977)
Community and economic development	273,516	-	273,516	218,427	308,927	35,411
General government	130,370	-	130,370	131,130	137,330	6,960
Debt service	156,646	-	156,646	156,648	156,648	2
Capital projects	-	-	-	-	72,000	72,000
Business type activities	-	334,955	334,955	295,300	330,300	(4,655)
Total disbursements	1,090,581	334,955	1,425,536	1,301,370	1,543,770	118,234
Excess (deficiency) of receipts over (under) disbursements	225,946	(67,836)	158,110	5,700	140,280	17,830
Balances beginning of year	119,849	70,812	190,661	916,237	190,661	-
Balances end of year	\$ 345,795	2,976	348,771	921,937	330,941	17,830

See accompanying independent auditors' report

City of Malvern  
Notes to Other Information – Budgetary Reporting  
June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the discretely presented component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$376,980 and budgeted disbursements by \$242,400. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amount budgeted in the culture and recreation and business type activities functions.

City of Malvern  
Schedule of the City's Proportionate Share of the Net Pension Liability  
Iowa Public Employees' Retirement System  
For the Last Two Years  
(In Thousands)  
Other Information

	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability	0.002881%	0.002772%
City's proportionate share of the net pension liability	\$ 142	110
City's covered-employee payroll	\$ 204	187
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	69.61%	58.82%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditors' report

City of Malvern  
Schedule of City Contributions  
Iowa Public Employees' Retirement System  
For the Last Eight Years  
(In Thousands)  
Other Information

	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	\$ 16	18	17	16	13	12	10	8
Contributions in relation to the statutorily required contribution	16	18	17	16	13	12	10	8
Contribution deficiency (excess)	\$ -	-	-	-	-	-	-	-
City's covered-employee payroll	\$ 181	204	187	183	162	159	145	122
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.39%

See accompanying independent auditors' report

City of Malvern  
Notes to Other Information – Pension Liability  
Year ended June 30, 2016

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

## **Supplementary Information**

City of Malvern  
Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances - Nonmajor Governmental Funds  
As of and for the year ended June 30, 2016

	Special Revenue			Total
	Employee Benefits	Urban Renewal Tax Increment	Library Trust Memorial	
Receipts				
Property tax	\$ 24,049	-	-	24,049
Other city tax	856	-	-	856
Intergovernmental	447	-	-	447
Miscellaneous	-	-	2,038	2,038
Total receipts	25,352	-	2,038	27,390
Disbursements:				
Operating				
Public works	19,296	-	-	19,296
Culture and recreation	13,839	-	160	13,999
General government	6,955	-	-	6,955
Total disbursements	40,090	-	160	40,250
Excess (deficiency) of receipts over (under) disbursements	(14,738)	-	1,878	(12,860)
Other financing uses:				
Transfers out	-	-	(600)	(600)
Total other financing uses	-	-	(600)	(600)
Change in cash balances	(14,738)	-	1,278	(13,460)
Cash balances beginning of year	20,357	16,039	1,263	37,659
Cash balances end of year	\$ 5,619	16,039	2,541	24,199
<b>Cash Basis Fund Balances</b>				
Restricted for other purposes	\$ 5,619	16,039	2,541	24,199

See accompanying independent auditors' report

City of Malvern  
Combining Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
General Fund  
As of and for the year ended June 30, 2016

	General	Liberty Memorial Sinking	Park Sinking	Library Building	Total
<b>Receipts</b>					
Property tax	\$ 271,500	-	-	-	271,500
Other city tax	10,816	-	-	-	10,816
Licenses and fees	1,600	-	-	-	1,600
Use of money and property	8,648	10	-	-	8,658
Intergovernmental	11,148	-	-	3,977	15,125
Charges for services	121,147	-	-	-	121,147
Miscellaneous	7,936	-	-	-	7,936
Total receipts	432,795	10	-	3,977	436,782
<b>Disbursements:</b>					
Operating:					
Public safety	61,468	-	-	-	61,468
Public works	105,134	-	-	-	105,134
Culture and recreation	204,613	-	-	-	204,613
Community and economic development	4,484	-	-	-	4,484
General government	123,415	-	-	-	123,415
Total disbursements	499,114	-	-	-	499,114
Excess (deficiency) of receipts over (under) disbursements	(66,319)	10	-	3,977	(62,332)
Other financing sources:					
Transfers in	6,600	-	-	-	6,600
Total other financing sources	6,600	-	-	-	6,600
Change in cash balances	(59,719)	10	-	3,977	(55,732)
Cash balances beginning of year	43,838	7,076	17,301	63,685	131,900
Cash balances end of year	\$ (15,881)	7,086	17,301	67,662	76,168

See accompanying independent auditors' report



Schedule 3

City of Malvern  
Schedule of Indebtedness  
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Downtown sidewalk improvement	Feb 1, 2001	5.00%	\$ 640,000	\$ 54,671	-	54,671	-	1,991	-
Library	Jan 18, 2007	4.75%	275,000	59,195	-	32,000	27,195	2,812	-
Street/Housing	Apr 8, 2014	2.54%	550,000	498,274	-	52,960	445,314	12,214	-
			\$	612,140	-	139,631	472,509	17,017	-
Revenue note:									
Sewer	Jun 14, 2004	1.75%	\$ 799,000	\$ 406,000	-	40,000	366,000	7,105	-

See accompanying independent auditors' report

City of Malvern  
Note Maturities  
June 30, 2016

General Obligation Notes					
Year Ended June 30,	Library		Street/Housing Improvements		Total
	Issued Jan 18, 2007		Issued Apr 8, 2014		
	Interest		Interest		
	Rates	Amount	Rates	Amount	
2017	4.75%	\$ 27,195	2.54%	\$ 54,000	\$ 81,195
2018	-	-	2.54%	56,000	56,000
2019	-	-	2.54%	57,000	57,000
2020	-	-	2.54%	53,000	53,000
2021	-	-	2.54%	54,000	54,000
2022	-	-	2.54%	55,000	55,000
2023	-	-	2.54%	57,000	57,000
2024	-	-	2.54%	59,314	59,314
Total		\$ 27,195		\$ 445,314	\$ 472,509

Revenue Note		
Year Ended June 30,	Sewer	
	Issued Jun 14, 2004	
	Interest Rates	Amount
2017	1.75%	\$ 41,000
2018	1.75%	42,000
2019	1.75%	44,000
2020	1.75%	45,000
2021	1.75%	46,000
2022	1.75%	48,000
2023	1.75%	49,000
2024	1.75%	<u>51,000</u>
Total		\$ <u>366,000</u>

See accompanying independent auditors' report

Schedule 5

City of Malvern  
Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds  
For the Last Ten Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
<b>Receipts</b>										
Property tax	\$ 440,179	458,682	378,852	378,852	385,502	359,237	358,456	339,395	346,343	312,598
Tax increment financing collections	-	7,295	6,566	6,566	6,546	3,925	-	-	-	-
Other city tax	94,952	97,296	91,789	91,789	86,874	85,511	83,416	86,445	82,873	83,127
Licenses and permits	1,600	1,565	830	830	1,938	2,764	1,689	2,360	1,335	1,067
Use of money and property	8,658	12,617	8,614	8,614	6,592	6,504	5,514	7,442	6,816	11,983
Intergovernmental	640,017	603,961	151,824	151,824	149,903	175,094	290,171	411,173	170,953	396,241
Charges for service	121,147	104,959	118,368	118,368	114,430	110,260	106,412	98,861	97,093	95,960
Special assessments	-	-	1,627	1,627	-	-	8,657	9,414	14,708	10,284
Miscellaneous	9,974	256,103	5,626	5,626	19,526	12,668	8,815	28,993	26,191	215,279
<b>Total</b>	<b>\$ 1,316,527</b>	<b>1,542,478</b>	<b>764,096</b>	<b>764,096</b>	<b>771,311</b>	<b>755,963</b>	<b>863,130</b>	<b>984,083</b>	<b>746,312</b>	<b>1,126,539</b>
<b>Disbursements</b>										
Operating:										
Public safety	\$ 61,468	60,954	68,157	68,157	71,017	62,699	61,604	63,070	81,892	70,934
Public works	243,969	234,232	229,966	229,966	216,410	228,925	251,488	262,079	248,611	250,608
Culture and recreation	224,612	238,660	194,274	194,274	191,735	170,895	161,670	194,152	183,026	194,648
Community and economic development	273,516	1,059,404	9,332	9,332	8,625	10,034	649	1,696	1,382	7,159
General government	130,370	130,458	113,096	113,096	105,858	92,768	100,918	89,982	112,106	141,743
Debt service	156,646	162,607	120,077	120,077	120,259	126,358	114,350	115,918	134,601	75,750
Capital projects	-	325,630	-	-	-	-	184,301	230,024	-	630,666
<b>Total</b>	<b>\$ 1,090,581</b>	<b>2,211,945</b>	<b>734,902</b>	<b>734,902</b>	<b>713,904</b>	<b>691,679</b>	<b>874,980</b>	<b>956,921</b>	<b>761,618</b>	<b>1,371,508</b>

See accompanying independent auditors' report

**City of Malvern**



Diane McGrain, CPA  
Jim Menard, CPA  
Kelsey Peterson, CPA

October 27, 2016

Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Malvern, Iowa, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 27, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Malvern's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Malvern's internal control. Accordingly we do not express an opinion on the effectiveness of the City of Malvern's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings we identified deficiencies in internal control over financial reporting that we consider to be a material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the City of Malvern's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-16 and I-B-16 to be material weaknesses.

Continued...

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City of Malvern  
Independent Auditors' Report on  
Internal Control and Compliance and Other Matters

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-C-16 and I-D-16 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Malvern's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Malvern's Responses to Findings

The City of Malvern's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Malvern's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Malvern during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schroeder & Associates, P.C.

City of Malvern  
Schedule of Findings  
Year Ended June 30, 2016

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

**I-A-16     Segregation of Duties**

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Council should review monthly the Clerk's Report and actual to budget comparisons.

Response – The city clerk and deputy clerk reconcile the bank on a rotating basis and a council member reviews the reconciliations and actual to budget comparisons. The entire council and mayor view general ledger revenue history reports on a monthly basis as part of their council meeting packets. The city clerk and the deputy clerk both check the online bank daily. We will implement additional controls where feasible.

Conclusion – Response accepted.

**I-B-16     Improvements to City Owned Property**

Comment – A nonprofit organization has been allowed to make improvements to City owned property with only Liberty Memorial Board approval. The bidding process and payment of claims were not run through the City.

Recommendation – Chapter 384.20 of the Code of Iowa states in part that, "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purposes." If an outside Organization wishes to help the City with improvements, the funds should be donated to the City, and proper bid letting procedures should be followed, and claims paid by the City.

Response – The November 15, 2016 Costello grant money received by MABA for the Liberty Memorial Building improvements has been donated to the City. Proper bid letting procedures and claims can now be monitored and paid by the City.

Conclusion – Response acknowledged.

City of Malvern  
Schedule of Findings  
Year Ended June 30, 2016

**Part I: Findings Related to the Financial Statements Continued:**

**I-C-16     Friends of the Liberty Memorial Building Bank Account**

Comment – The City, by resolution, established a special joint bank account for the Friends of the Liberty Memorial Building and the Malvern Area Betterment Association (MABA). It was discovered this account was set up under a MABA members social security number and is, in fact, not for City funds. The Deputy Clerk was also named a signer along with the MABA member.

Recommendation – This account should be closed and transferred into MABA's tax identification number, and the deputy clerk should not be a signer. Any grant money intended to benefit the City should be donated to the City and deposited into a City account for the City's record keeping.

Response – This account has been closed and is now a City account to which donated money can be deposited. More commonly named, the "Friends of the Community Building" account is now a City account subject to City signatories as documented at the bank and approved by Council. This City account is used to house donations monies for the City's record keeping.

Conclusion – Response accepted.

**I-D-16     Sewer Rates**

Comment – PeopleService was not charging the proper rates as amended by Ordinance No. 291, passed May 2014. The rate should have been increased by \$0.10 for the first 1,000 gallons, and \$0.05 for every next 1,000 gallons.

Recommendation – City should implement procedures that oversee the service provider in charging the proper rates.

Response – For the July 2016 change in water and sewer rates, council adopted ordinances of rate changes were sent to PeopleService, and phone calls followed up the documentation to confirm comprehension. Then bills were reviewed to be sure the rates matched the aforesaid.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.



City of Malvern  
Schedule of Findings  
Year Ended June 30, 2016

**Part II: Other Findings Related to Statutory Reporting:**

II-A-16      Certified Budget

Comment - Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the Culture and Recreation and Business Type Activities functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future before disbursements are allowed to exceed the budget. Every effort will be made to keep disbursements within the budget.

Conclusion – Response accepted.

II-B-16      Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-16      Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-16      Business Transactions

We noted no business transactions between the City and City officials or employees.

II-E-16      Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-16      Council Minutes

No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Malvern  
Schedule of Findings  
Year Ended June 30, 2016

**Part II: Other Findings Related to Statutory Reporting Continued:**

II-G-16      Enterprise Debt

Comment – The City had insufficient funds to cover the required transfers per the sewer bond resolution to service the debt. Net receipts were insufficient to service operations and debt service requirements, resulting in a negative unrestricted fund balance.

Recommendation – The City should consider raising sewer rates in order to maintain the fund in sound financial condition.

Response – The City has raised water rates approved by ordinance by the council on June 13, 2016, effective on the July 2016 billings.

Conclusion – Response accepted.

II-H-16      Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-16      Financial Condition

Comment – The Enterprise, Sewer Fund had a deficit balance of \$49,148. The Capital Projects Fund had a deficit balance of \$51,672.

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits. The City should control spending within budget limits and corresponding revenue sources.

Response – The sewer rates were raised beginning July 2016 to return the fund to sound financial condition. The Capital Projects Fund is at a deficit because reimbursement is requested after expenses are incurred, which is already taken care of by requesting federal funds for reimbursement of CDBG projects.

Conclusion – Response accepted.

II-J-16      Inactive Capital Project

Comment – The Capital Projects Fund for the Liberty Memorial Project, Lagoon, Street and FEMA are inactive.

Recommendation – The City should make the appropriate transfers to close.

Response – We will be happy to make the appropriate transfers to close the Capital Projects Funds for the Liberty Memorial project, Lagoon, Street, and FEMA, which appear to be inactive. We will secure help from Data Tech to do the appropriate transfers when funds are available from the General Fund.

Conclusion – Response accepted.

City of Malvern  
Schedule of Findings  
Year Ended June 30, 2016

**Part II: Other Findings Related to Statutory Reporting Continued:**

II-K-16      Tax Increment Financing

Comment – The City has cash on hand of \$16,039 at June 30, 2016 in the Special Revenue, Tax Increment Financing Fund to pay for TIF debt no longer outstanding.

Recommendation – The City should consult bond counsel to determine the disposition of this issue.

The City should complete and provide TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding for the cash on hand in the Special Revenue, Tax Increment Financing Fund at June 30, 2016.

Response – Bond counsel has been contacted and documents have been approved by the council as of November 14, 2016 to use the \$16,039 for a TIF related project. A public hearing was held and Resolutions 2016-39 and 2016-40 were adopted for expansion of Malvern Urban Renewal Area #1 and Urban Renewal Plan Amendment, and authorizing internal advance of funds for the East 10<sup>th</sup> Street Project.

Conclusion – Response accepted.

II-L-16      Payroll Resolution

Comment – The City approved a pay rate increase but did not specify each employee's rate of pay.

Recommendation – The City should pass a resolution when raises are made specifying each employee's rate of pay.

Response – We have corrected this for fiscal year 2017. Resolution 2016-14 has been approved by council stating each employee's rate of pay.

Conclusion – Response accepted.

II-M-16      Annual Urban Renewal Report

The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.